

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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In the Matter of the Application of
California-American Water Company (U
210 W) for a Certificate of Public
Convenience and Necessity to Construct
and Operate its Coastal Water Project to
Resolve the Long-Term Water Supply
Deficit in its Monterey District and to
Recover All Present and Future Costs in
Connection Therewith in Rates

Application No. 04-09-019

**REPORT ON THE REASONABLENESS OF CALIFORNIA-AMERICAN WATER
COMPANY'S COASTAL WATER PROJECT PRECONSTRUCTION COSTS
INCURRED THROUGH 2006**

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Attorneys for CALIFORNIA-AMERICAN
WATER COMPANY

Date: March 30, 2007

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Pursuant to Ordering Paragraph 6 of Decision ("D.") 06-12-040, California-American Water Company ("California American Water") hereby submits its Report on the Reasonableness of Coastal Water Project Preconstruction Costs Incurred Through December 31, 2006. The purposes of this Report are (1) to renew California American Water's request for recovery of the Coastal Water Project engineering and environmental costs incurred through 2005, which the California Public Utilities Commission ("Commission") deferred in D.06-12-040 to provide the Division of Ratepayer Advocates ("DRA") additional time for review; and (2) to demonstrate that California American Water's engineering and environmental costs, public outreach costs, legal fees, and miscellaneous charges incurred by California American Water in 2006 were prudent and necessary for the Coastal Water Project.¹ As directed by the Commission

¹ The Commission directed California American Water to submit its report on or before March 31, 2007. (D.06-12-040, *In the Matter of the Application of California-American Water Company for a Certificate of Public Convenience and Necessity to Construct and Operate its Coastal Water Project to Resolve the Long-Term Water Supply Deficit in its Monterey District and to Recover All Present and Future Costs in Connection Therewith in Rates*, 2006 Cal. PUC LEXIS 422, *58 Ordering Para. 6.)

in D.06-12-040, upon the Commission’s finding that such costs are reasonable, California American Water will transfer the \$10,213,249 of costs incurred for the Coastal Water Project through 2006 from the authorized memorandum accounts to its Surcharge #1 cost recovery balancing account.

I. REASONABLENESS OF PRECONSTRUCTION COSTS INCURRED BY CALIFORNIA AMERICAN WATER THROUGH 2006

In sum, California American Water’s request is comprised of the following items:

a) \$5,670,073 of engineering and environmental through 2005 as previously requested; b) \$2,733,385 of engineering and environmental costs incurred in 2006; c) \$128,671 of 2006 public outreach program costs; d) \$475,486 in fees for legal services rendered in 2006; e) \$589,633 in company labor costs charged to the Coastal Water Project in 2006; f) \$6,303 of miscellaneous project charges; and f) \$426,733 of an interest allowance on the memorandum account related to all of the pre-2006 costs approved in D.06-12-040 and g) \$85,791 of interest on all engineering charges incurred through 2005; and h) \$97,174 in interest on charges incurred in 2006. A detailed summary of the 2006 Coastal Water Project charges is provided in the attached spreadsheet entitled 2006 Costs Charged to the Coastal Water Project (“Coastal Water Project 2006 Charge Exhibit”), attached as Exhibit A. The Direct Testimony of David P. Stephenson, attached hereto as Exhibit B, describes how the interest allowance for the charges incurred through 2006 was calculated for this Report.

A. 2005 Engineering and Environmental Costs

As recognized by the Commission, California American Water has already submitted evidence in this proceeding in support of its previously requested engineering and environmental costs through 2005 and the Commission held that California American Water “provided the required showing to support its request.” (D.06-12-040, *21.) California

American Water reserves the right to submit rebuttal testimony to the extent it is necessary to supplement its showing that these costs are reasonable.

B. 2006 Pre-Construction Costs

The Direct Testimony of B. Kent Turner, attached as Exhibit C, describes the importance of California American Water's recovery of costs incurred in 2006 to pursue a replacement long-term water supply solution for customers in the Monterey District. Mr. Turner's testimony generally addresses the reasonableness and necessity of costs incurred through 2006 to move forward on the Coastal Water Project and specifically addresses the specialized legal services rendered in connection with the Coastal Water Project in 2006. As explained in the supporting testimony (Exhibits B-F), the services which California American Water seeks to recover are reasonable, directly related to its community outreach program, and supported by vendor invoices.

The costs of California American Water's public outreach activities for the Coastal Water Project in 2006 are described in the Direct Testimony of Kevin A. Tilden, attached as Exhibit D. After carefully reviewing the charges to the Coastal Water Project, California American Water has determined that it will not seek recovery of \$70,172.21 in public outreach charges.

The 2006 engineering and environmental costs are addressed in the Direct Testimony of Thomas J. Bunosky, attached as Exhibit E. Mr. Bunosky's testimony also addresses the labor and overhead costs that were charged to the Coastal Water Project in 2006. The Direct Testimony of Lawrence Gallery, P.E., attached as Exhibit F, addresses the scope of engineering and environmental work performed by RBF Consulting in connection with the Coastal Water Project in 2006 and describes the fees charged by RBF to California American Water for work performed on the Coastal Water Project in 2006.

As mentioned above, the Direct Testimony of David P. Stephenson (Exhibit B) describes how the interest through 2006 was calculated and also addresses how the labor-related and general and administrative overhead charges were calculated.

II. EXHIBITS

Exhibit A - Coastal Water Project 2006 Charge Exhibit

Exhibit B - Direct Testimony of David P. Stephenson

Exhibit C - Direct Testimony of B. Kent Turner

Exhibit D - Direct Testimony of Kevin A. Tilden

Exhibit E - Direct Testimony of Thomas J. Bunosky

Exhibit F - Direct Testimony of Lawrence Gallery

III. CONCLUSION

As demonstrated by the supporting exhibits, California American Water's engineering and environmental costs, public outreach costs, legal fees, and miscellaneous charges incurred by California American Water in 2006, as well as the Coastal Water Project engineering and environmental costs incurred through 2005 and interest related to these charges, were prudent and necessary for the Coastal Water Project. The \$10,213, 249 of total costs incurred for the Coastal Water Project through 2006 should therefore be transferred from the authorized memorandum accounts to California American Water's Surcharge #1 cost recovery balancing account.

Dated: March 30, 2007

By: /s/ Lori Anne Dolqueist

Lori Anne Dolqueist
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CALIFORNIA-AMERICAN WATER
COMPANY

VERIFICATION

I, the undersigned, declare:

I am the President of California-American Water Company and am authorized to make this Verification for and on its behalf, and I make this Verification for that reason. I have read the above document and know its contents; I am informed and believe and, on that ground, allege that the matters stated in it are true. I declare under penalty of perjury that the foregoing is true and correct.

Executed on March 30, 2007, at Chula Vista, California.

/s/ B. Kent Turner
B. Kent Turner

NOTICE OF AVAILABILITY

The Exhibits to California-American Water Company's ("California American Water") Report listed below exceed 50 pages in length. Therefore, pursuant to Rule 1.9(c)(1), California American Water hereby provides this Notice of Availability of the Exhibits to the Report. Upon written request, California American Water will provide a copy of the Exhibits to the Report on parties on whom this Notice of Availability is served. Parties that wish to obtain a copy of the Exhibits to the Report should contact:

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Exhibits to the Report

<u>Exhibit A</u>	Coastal Water Project Charge Exhibit
<u>Exhibit B</u>	Direct Testimony of David P. Stephenson
<u>Exhibit C</u>	Direct Testimony of B. Kent Turner
<u>Exhibit D</u>	Direct Testimony of Kevin A. Tilden
<u>Exhibit E</u>	Direct Testimony of Thomas J. Bunosky
<u>Exhibit F</u>	Direct Testimony of Lawrence Gallery

PROOF OF SERVICE

I, Michelle Chavez, declare as follows:

I am employed in the City and County of San Francisco, California. I am over the age of eighteen years and not a party to this action. My business address is STEEFEL, LEVITT & WEISS, One Embarcadero Center, 30th Floor, San Francisco, California 94111-3719. On March 30, 2007, I served the within:

Report on the Reasonableness of California-American Water Company's Coastal Water Project Preconstruction Costs Incurred Through 2006

on the interested parties in this action addressed as follows:

Please see attached Service List

- ☒ **(BY E-MAIL SERVICE)** By transmitting such document(s) electronically from Steefel, Levitt & Weiss, San Francisco, California, to the electronic mail addresses listed above. I am readily familiar with the practices of Steefel, Levitt & Weiss for transmitting documents by electronic mail, said practice being that in the ordinary course of business, such electronic mail is transmitted immediately after such document has been tendered for filing. Said practice also complies with Rule 1.1 of the Public Utilities Commission of the State of California and all protocols described therein.
- ☒ **(BY MAIL)** By placing such document(s) in a sealed envelope, with postage thereon fully prepaid for first class mail, for collection and mailing at Steefel, Levitt & Weiss, San Francisco, California following ordinary business practice. I am readily familiar with the practice at Steefel, Levitt & Weiss for collection and processing of correspondence for mailing with the United States Postal Service, said practice being that in the ordinary course of business, correspondence is deposited in the United States Postal Service the same day as it is placed for collection.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration was executed on March 30, 2007, at San Francisco, California.

/s/ Michelle Chavez

Michelle Chavez

SERVICE LIST - A.04-09-019
Last Changed On February 23, 2007

VIA REGULAR U.S. MAIL

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